

Assessment Schedule – 2005**Economics: Describe and illustrate resource allocation via the public sector to compensate market failure (90631)****Evidence Statement**

Code	Question	Evidence	Achievement	Merit	Excellence
A1 and A2	ONE (a)	Example: A specific New Zealand polluting industry. Accept power station, dairy farm, furniture factory, etc. Intervention: Regulations that set pollution limit, purchase permits to pollute, polluter pays, tax on Production . Example: Cigarettes / Alcohol / not fast food Intervention: Sales / excise tax, advertising negatives	A1 = BOTH examples correct A2 = BOTH policies correct		
A1	(b)	The market in each case produces inefficient or inequitable outcomes or creates externalities or does not achieve allocative efficiency or conditions for Perfect Competition not met or unclear price signals.	Describes market failure.		
A1	TWO (a)	Non-excludable by price: non payers can't be excluded from using road. Non-rival: one person using a road doesn't prevent others from using it. Non-depletable: marginal cost of allowing another user is zero.	Non-excludable by price and one other feature. Accept bold only.		
A2	(b)	Because roads are <i>provided free of direct charge</i> and are <i>paid for from the governments general taxation pool</i> .	BOTH ideas described.		
A2 or M	(c)	<ul style="list-style-type: none"> Free riders are able to use public goods without paying [I]. Private firms are unable to make a profit and don't provide them. Road tolls would provide private firms with a source of income (and if this was sufficient, to earn profit) [E] Would have an incentive to provide roads [Q]. 	Identifies free riders don't pay (key idea, implied OK), but answer may include minor errors or may not be a full answer.	Full explanation, ie [I] identifies the key economic idea(s), and [E] explains the idea to answer the [Q]uestion. "Incentive to provide..." very important.	
A3	(d)	See Appendix A.	Toll and DWL correctly identified.		

Code	Question	Evidence	Achievement	Merit	Excellence
A3 and A3#	THREE (a) (i) (a) (ii) (c) (i)	See Appendix B.	MR twice slope of AR, AND P_M and Q_M correctly located. P_{AC} and Q_{AC} correctly located.		
A2# or M#	(c) (ii)	Setting price equal to AC: <ul style="list-style-type: none"> • increases total surpluses • or reduces DWL [I] • makes natural monopolist earn normal profit so they stay in the market • consumers experience a significant increase in consumer surplus due to the lower price and higher quantity consumed (compared to profit max) [E] • $P = AC$ is socially more desirable than the profit max output (Q_M) [Q] • get close to allocative efficiency 	One valid comment, eg price decreases and quantity increases OR DWL decreases OR surpluses increase.	Full explanation, ie [I]dentifies the key economic idea(s), and [E]xplains the idea to answer the [Q]uestion. Must have “ $P=AC$ socially more desirable than...” and two other ideas.	
A2#	(c) (iii)	<ul style="list-style-type: none"> • Still incurs a deadweight loss as are not allocatively efficient at $P=MC$ or <ul style="list-style-type: none"> • With natural monopolists only making normal profit they may not have the funds to invest in R & D, so less innovation. or <ul style="list-style-type: none"> • Not operating at desired output, ie Q_m and P_m. • Normal return? / Inflating costs. 	Describes a negative effect.		
A2 # or M#	(c) (iv)	<ul style="list-style-type: none"> • To completely remove the DWL (or to maximise total surpluses), price needs to equal marginal cost. • Natural monopolist will only produce Q_S if they receive a subsidy to cover the losses (sub normal profit). • Taxes to fund the subsidy will come from non-consumers of this good, which is inequitable. • Overall then, $P=AC$ is a good compromise, as it increases efficiency without the need for an inequitable subsidy. 	Summarises (need not be for and against) (one valid point at least) , attempts a judgement as to the effectiveness of price controls. Judgement implied OK. Can contain an error.	Comprehensive survey of points for and against (three at least) , AND a very good concluding statement on the effectiveness of price controls. No errors.	
E	THREE (c)(i) (c)(ii) (c)(iii) (c)(iv)	A3# A2# or M# A2# A2# or M#			1 x M# 3 other # (All four parts correct, one at M level)

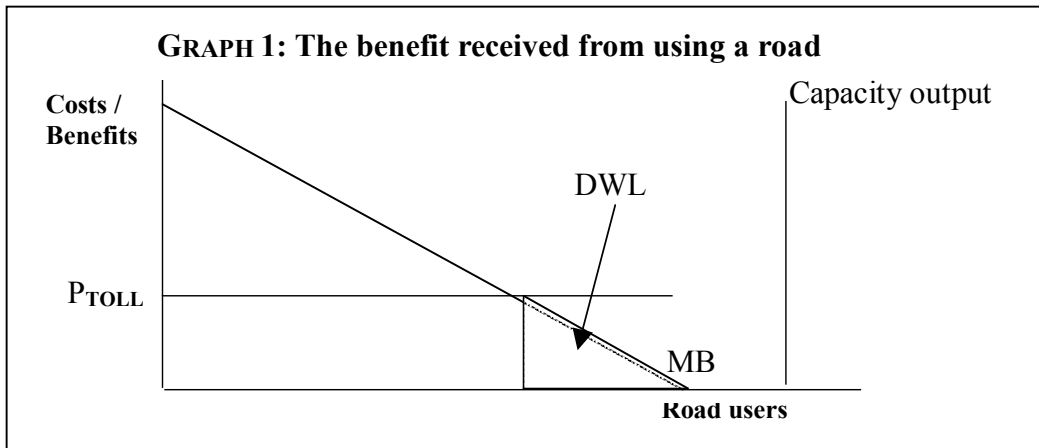
Code	Question	Evidence	Achievement	Merit	Excellence
A3 and A3	THREE (b) (i) (b) (ii) (d) (i)	See Appendix C.	A3 = LE and L2 correctly located. A3 = L3 location matches explanation in (d) (ii).		
A2 or M	(d) (ii)	Could improve or worsen income distribution. <i>Eg worsen:</i> Tax cuts give high income groups a greater proportionate increase in HDI than low income groups [I] or gap between rich and poor becomes greater and income inequality worsens. <i>Eg worsen;</i> ↓ income tax → ↓ government revenue [I] reducing government's ability to redistribute income via the welfare system, causing the gap between rich and poor [E] to increase, worsening income distribution [Q]. <i>Eg improve:</i> ↓ income tax → ↑ HDI causing [I] ↑ C (and AD) and increasing demand for labour, causing unemployment to fall. With more unemployed earning income, the gap between rich and poor [E] decreases, improving income distribution [Q].	A2 must state that the effect on high income groups will be greater than on low income groups.	Full explanation of any of the three points opposite. Must state that the distribution is better or worse. Must refer to HDI.	
A1*	FOUR (a)	Eg (1) Spillover effects for restaurants, taxis, investment in new businesses, new job opportunities in other industries, new skills and experience for film industry, foreign producers come to New Zealand. (2) Tourists who see New Zealand in films visit → more jobs / sales, etc.	TWO valid examples.		
A3 A3*	(b) (i) (b) (ii) (b) (iii)	See Appendix D.	A3 = SMC to right of MC, and Q_s and P_s correctly located. A3* = per unit subsidy correctly identified.		

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A2*	(c) (i)	<ul style="list-style-type: none"> The subsidy raises the revenue received or decreases costs for New Zealand film producers. Provides them with an incentive to increase local production to a more socially desirable level. Allocates more resources to the motion picture industry in New Zealand. 	Describes a positive effect.		
A2*	(c) (ii)	<ul style="list-style-type: none"> There is an opportunity cost in government not spending on other government services, eg health, education, welfare. May encourage movie producers to become inefficient. May result in exploitation of natural resources. 	Describes a negative effect.		
A2 Or M*	(c) (iii)	Summary of points for and against a subsidy from (c) (i) and (c) (ii) above and a conclusion.	Summarises (need not be for and against) (one valid point at least), attempts a judgement as to the effectiveness of a subsidy. Judgement implied OK. Can contain an error.	Comprehensive survey of points for and against (three at least) and a very good concluding statement on the effectiveness of subsidies. No errors.	
E	Four (a) (b) (iii) (c) (i) (c) (ii) (c) (iii)	A1* or A3* and A2* A2* M*			All Four * grades

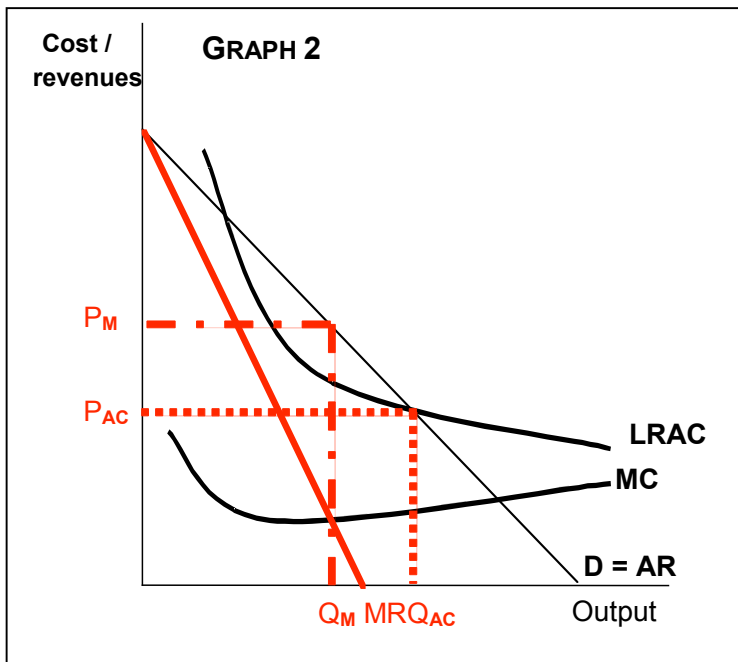
Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
1 × A1 1 × A2 1 × A3 5 other A <i>or</i> M	2 × M 1 × A1 1 × A2 1 × A3 7 other A <i>or</i> M <i>or</i> 1 × M 1 × A1 1 × A2 1 × A3 12 other A <i>or</i> M	1 × E 3 × M 1 × A1 1 × A2 1 × A3 5 other A <i>or</i> M <i>or</i> 2 × E 2 × M 1 × A1 1 × A2 1 × A3 5 other A <i>or</i> M

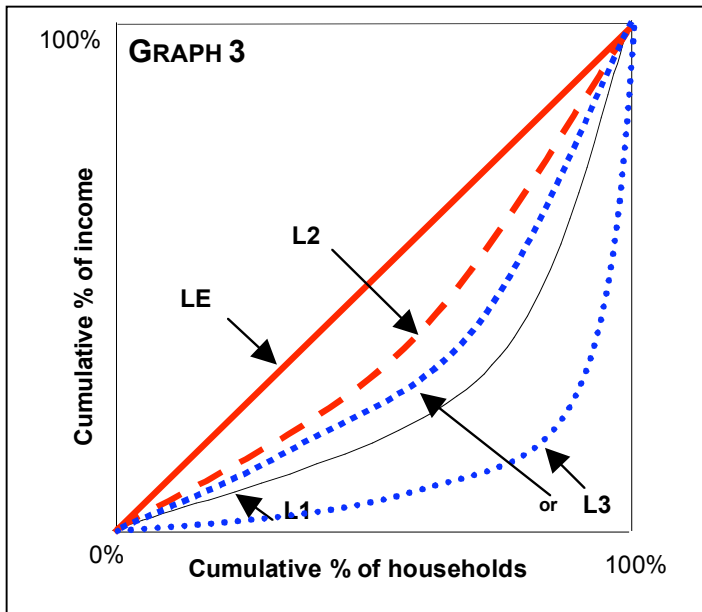
Appendix A – for Question Two (d)



Appendix B – for Question Three (a)



Appendix C – for Question Three (b)



Appendix D – for Question Four (b)

